

# **REPORT ON THE Intermediate Term INVESTMENT FUND**

**For The Fiscal Year Ended June 30, 2020**



PREPARED FOR THE  
**STATE FUNDING BOARD**

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PREPARED BY  
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**TENNESSEE TREASURY DEPARTMENT**  
**Intermediate Term Investment Fund Report**  
For the fiscal year ended June 30, 2020

**I. COMPLIANCE WITH INVESTMENT POLICY**

The investment policy for the Intermediate Term Investment Fund (ITIF) is set by the State Funding Board. The board is composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State, and Treasurer. The investment objective for the ITIF is to offer a longer term investment option for the State and any entity that is eligible to invest in the LGIP. Returns of a fund with a longer term investment horizon are expected to outperform liquidity funds such as the SPIF, but there are risks associated with longer term investments. If interest rates increase, the value of investments will decline. Investors should consider the risks involved, including the lack of liquidity provided from a fund such as the ITIF, before making a decision to participate.

Portfolio Composition

The ITIF was launched on July 22, 2013, when the first participant invested \$200 million. As of June 30, 2020, there was one additional investment of \$11.76 million and three participant withdrawals totaling \$204.44 million since inception. Investment policy permits investments in US Government and Agency securities, repurchase agreements, prime commercial paper, prime banker's acceptances, and the State Pooled Investment Fund (as a source of liquidity or uninvested idle cash, if necessary). During the fiscal year, investments were only made in government agency securities with idle cash invested in the SPIF. The average composition during the year ended June 30, 2020, was 79.17% US agencies and 20.83% idle cash in the SPIF. Because of the sudden change in interest rates during this year, idle cash from the call or maturity of securities was re-invested at the most advantageous times.

Maturity

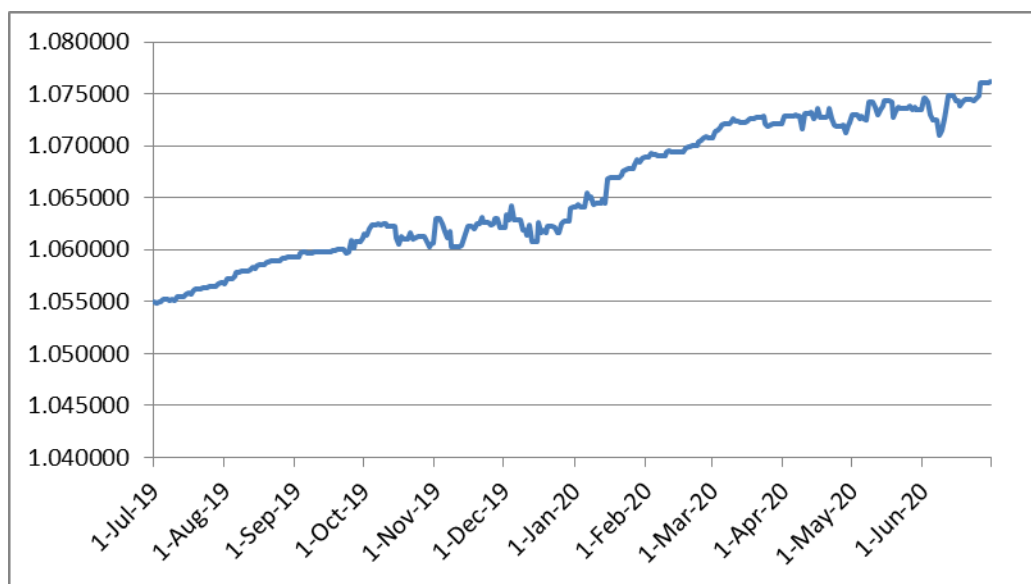
The objective of the ITIF is to take advantage of the expected additional return from investing farther out on the yield curve. The Investment Policy permits investments up to five years with an average maturity of three years. The weighted average maturity (WAM) of the ITIF began the year at 2.70 years and ended the year at 2.59 years. During the year, the WAM ranged from 2.07 years to 2.91 years. At the beginning of the fiscal year, the Fed Funds rate was at a range of 2.25% to 2.50%. The rate was lowered six times, with the rate being set at .25% due to the pandemic at the March meeting. The FOMC forecast is for rates to remain at this level through calendar year 2021.

Liquidity

This fund is not designed to provide liquidity. As a result, the fund will not maintain a significant position in cash equivalent securities for the sole purpose of providing liquidity. Investors are encouraged to only invest funds that are not going to be needed for short term liquidity purposes. Withdrawals are limited to the first working day of each quarter, as long as notice is provided at least 30 days prior to the withdrawal date.

## II. PORTFOLIO PERFORMANCE

For the period July 22, 2013 thru June 30, 2020, the Intermediate Term Investment Fund has had a market value increase of 7.61%. During fiscal year 2020, the fund increased in value 1.98% net of expenses. During the same period, the SPIF returned 1.56%, the Vanguard Short Term Federal Fund (VSGBX) returned 4.78%, and the Barclays US Treasury Bond Fund Index returned 4.05%. During fiscal year 2020, the net asset value (NAV) ranged from a low of 1.054887 on July 2, 2019, to 1.076154 on June 30, 2019. The graph below demonstrates the daily change in net asset value during the year.



## III. INVESTMENT POLICY REVIEW

No Investment Policy changes are anticipated during the current fiscal year. The fund has operated as planned and there have been no concerns that have arisen. Also, there are no market regulations that impact funds of this nature being discussed at this time.

## IV. INVESTMENT PLAN

During FY 20, there were several rate changes by the FOMC. The rate at the beginning of the year was 2.25% to 2.50%. The rate was lowered on July 31, September 18, October 30, and at an inter-meeting called on March 3. Then, the FOMC lowered the rate to the current level of .00% to .25% at the March 15 meeting in order to assist in stimulating the economy due to the pandemic. While the safety and liquidity offered from money market funds outweighs the risks of investing in funds with longer maturities for many investors, those that have funds not needed for short term liquidity can benefit from a fund similar to the Intermediate Term Investment Fund (ITIF). There are risks associated with investing in the ITIF. The investment policy of the fund attempts to minimize the risks by limiting investments to securities that possess little credit risk and by limiting deposits and

withdrawals to the first business day of each quarter and requiring a 30 day notice before a withdrawal can be made. Rising interest rates can have a negative impact on performance, while declining rates can increase the market value of securities held in a portfolio. Staff will continue to monitor the movement in interest rates as well as other market conditions that could impact the fund and make changes as needed to maintain a competitive investment option for public entities across the State.

## V. COST OF ADMINISTRATION

The cost to operate the ITIF are minimal due to the efficiencies gained by utilizing many of the same resources as are used to manage other funds within Treasury. The costs of operations are funded from a 5 basis point charge for assets invested. Most commercial funds charge substantially more than 5 basis points. Also, the costs of operations include more than investment management. The 5 basis points finances:

- Investment of portfolio
- Software and hardware support and maintenance
- Accounting and recordkeeping
- Support cost such as internal audit, payroll, personnel, etc.

## VI. PORTFOLIO AT JUNE 30, 2020

DESCRIPTION	ACCRD-INCOME	MARKET-VALUE	MATURITY	MKT PRICE	PAR	INC PURCHASED	RATE	CUSIP
FFCB	5,130.00	3,013,080.00	11/25/2022	100.265	3,000,000	142.50	1.710	3133ELAU8
FFCB	13,097.22	5,018,447.22	4/9/2025	100.107	5,000,000		1.150	3133ELWC4
		8,031,527.22						
	Cash	4,032,235.36						
		12,063,762.58						
	SHARES	11,210,073.10						
	NAV	1.076154						